

Date: July 18, 2014

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Kevin Dick, Director - Office of Economic and Workforce Development
Subject: Recommendation to Enter Into Economic Development Incentive Contract with Argos Therapeutics, Inc.

Executive Summary

This item describes a proposed project and economic development incentive agreement between the City of Durham and Argos Therapeutics, Inc. This business expansion project would be undertaken within the city limits of Durham. The proposed incentive is for \$924,676.00 to be paid out over a period of seven years for the creation of \$40,900,000.00 in capital investment within three (3) years of Council approval, with payments anticipated to begin in FY16.

The proposed project would generate an approximate total of \$1,700,000.00 in projected new tax revenues between fiscal year 2016 and fiscal year 2025.

Recommendation

The Office of Economic and Workforce Development recommends that City Council:

1. Conduct a public hearing, August 18, 2014, on the proposed Argos Therapeutics, Inc. economic development incentives agreement; and,
2. Authorize the City Manager to execute an economic development incentive agreement with Argos Therapeutics, Inc. in an amount not to exceed \$924,676.00.

Background

The Durham City Council adopted the current Resolution Establishing an Economic Development Financial Assistance and Incentive Policy for Job Creation, Job Retention and Capital Investment on April 21, 2014. The policy states that for major projects that are slated to occur in an area being defined as within the city limits but outside the community development area (formerly known as the Urban Growth Area), the project's capital investment must be non-residential and valued at least \$20,000,000.00 within 3 years of council approval to qualify for incentives. The policy is "performance-based." No incentives will be paid to the company until after the company has achieved its goals.

Argos Therapeutics has applied to the City and County of Durham, as well as the State of North Carolina Department of Commerce for economic development incentives. The company is being recruited by five other counties within North Carolina, as well as locations in the Orlando, Florida area and Quebec, Canada. The application to the City of Durham is based upon its proposed expansion within the city limits. Argos Therapeutics is a biopharmaceutical company focused on the development and commercialization of fully personalized immunotherapies for the treatment of cancer and infectious diseases based on its Arcelis™

technology platform. This project is based on a possible expansion that would involve a lease and retrofit of an 112,000 square foot facility on T.W. Alexander Drive to house their headquarters, manufacturing and research and development functions. Argos is currently headquartered in Durham.

Demographic Profile of Workforce

Approximately 25% to 30% of the workers at Argos are Durham residents and the demographic profile of the workforce is as such:

- 17% are non-Caucasian
- 58% are female
- 58% are age 40 or above
- Argos has recruited talent from the local universities and base of commercial companies including the North Carolina Central University BRITE Program.
- Argos Therapeutics traces its roots to Duke University, where company founders developed a unique RNA-based technology

Community Focus

Argos is community-focused demonstrated through:

- Conducting an annual food drive for the Durham and Eastern NC Food Banks
- Donation of equipment to the Durham Technical Community College BioWorks Program
- Support of the American Kidney Cancer Foundation and AIDS Foundation

Issues and Analysis

Capital Investment

Argos Therapeutics plans \$40,900,000.00 in capital investment within three (3) years of Council approval with the City proposing an incentive payment of \$924,676.00 over a seven year period, should the City Council vote to approve it. These capital improvements are projected to yield \$1,693,870.00 in new tax value over a ten year period between fiscal year 2016 and fiscal year 2025.

Job Creation

The project is projected to result in the creation of an additional 118 jobs by 2017 and a total of 236 jobs by 2018 with an average wage of \$90,725.00 per year plus benefits.

Terms of the Incentive Agreement

Payment of incentives under this agreement would be subject to the verification of capital investment expenditures of \$40,900,000.00 within three years of City Council approval of the agreement. The agreement would also require the company to comply with other requirements in order to be eligible for the incentives. These requirements include, but are not limited to the following:

- The company must provide the City with documentation to provide expenditures of the aforementioned capital investment amounts;
- The company must complete and return the “Durham-Based Business Plan”, and the “Workforce Development Plan” and comply with the provisions of both.

- Although the proposed incentive agreement does not consider payment for job creation, the company must provide to the City a certified copy of the company's employment insurance filings with the North Carolina Department of Commerce Division of Employment Security (DES) as proof of the creation of 118 jobs by 2017 of the planned 236 additional jobs to be created.

Alternatives

City Council could decide to not incentivize Argos Therapeutics, Inc., and risk losing the capital investment and approximately \$1.7M in projected new tax revenues between fiscal year 2016 and fiscal year 2025. Additionally, the creation of 118 additional jobs by 2017 and 236 high paying jobs by 2018 would be at risk.

Financial Impact

The proposed incentive would have no immediate impact on the City's general fund. The future revenues from the project would go into the City's General Fund and pay for the incentives between FY2016 and FY2022.

SDBE Summary

While no specific SDBE provisions are specifically required by ordinance for this agreement, it is understood that if this agreement is approved, Argos will be required to develop and implement a plan to make good faith efforts to use Durham-based firms for contracting activities.

Attachments

Contract between Argos Therapeutics, Inc. and the City of Durham regarding incentives for capital investment outside the Community Development Area within the city limits, 8 pages.

Attachment A Workforce Development Plan, 4 pages.

Attachment B Durham-Based Business Plan, 5 pages.

Projected revenue calculations, 1 page.